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BEFORE THE CANADIAN RADIO-TELEVISION  
AND TELECOMMUNICATIONS COMMISSION

IN THE MATTER OF INTEREXCHANGE VOICE  
COMPETITION AND RELATED ISSUES: CRTC  
TELECOM PUBLIC NOTICE 1984-6

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FINAL ARGUMENT OF THE MINISTER OF TRANSPORTATION AND  
COMMUNICATIONS ON BEHALF OF THE GOVERNMENT OF ONTARIO.

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## I

INTRODUCTION

The proceeding in which the CRTC has just concluded hearings has generally been referred to as the I X or Interexchange Voice Competition Proceeding. The name commonly used for this proceeding may be somewhat misleading. The proceeding was initiated by an application, by CNCP Telecommunications pursuant to Sections 265 and 320 of the Railway Act, for the provision of facilities for the interexchange of traffic between its system and those of the British Columbia Telephone Company and Bell Canada. The application of British Columbia Rail to interconnect its facilities with those of British Columbia Telephone, although limited to interconnection for the provision of data and private line voice services, was considered by the Commission to be appropriately heard at the same time.

In CRTC Telecom Public Notice 1984-6 the Commission went well beyond a consideration of the two applications mentioned in the preceding paragraph. The notice raised, in explicit terms, a number of related important public policy issues which were to be dealt with in the context of the CNCP and BC Rail applications. In addition to these matters, the Commission, ruling on a motion made by the Consumers Association of Canada, stated the following at page 893 of the transcript:

"Existing and future possible rate relationships are, in the Commission's view, relevant in determining whether competition should be introduced and if



so, when competition might commence, and on what terms and conditions. Consequently, the issue of the relationships between local and long distance rates, by whatever term that issue is referred to, is properly before the Commission in this proceeding, as is the issue of what adjustments to such rates might be necessary in a competitive environment."

The gravity of the issues raised either directly or indirectly by this proceeding may be gauged by the number and diversity of the parties who have expressed an interest in and participated throughout the Commission's hearing process. It may be said that the Commission has received more comment and input, both from institutional participants and the public at large, in this matter than it has in any previous matter in the telecommunications field. The Government of Ontario views this proceeding and the decisions which the Commission may make as a result of the hearing process to be the most significant regulatory decisions in the telecommunications field yet to be made. The decision may have far reaching effects on the industrial structure in communications, the nature and variety of services available in the future, and the rates which people may in the future pay for telecommunications services.

The issues involved in this proceeding, because of their great importance and their significant potential impact, should be considered in the light of basic principles. For this reason, the Government of Ontario believes that it is appropriate to restate the principles which it presented in its response to the Department of Communications request for comments on the subject of national telecommunications policy.



These principles are:

- o Universality of access by Canadians to basic telecommunications services at affordable rates must be maintained.
- o Fairness to all parties and regions must be promoted by regulatory arrangements.
- o Recognizing that competition is not always adequate to the purpose, regulation is necessary to ensure that telecommunications services are provided on just and reasonable terms.
- o There must be a full opportunity for Canadian business to be competitive and to have access to a wide range of competitively priced telecommunications services.
- o There must also be the fullest opportunity for the development, implementation and commercial exploitation of new telecommunications technology in Canada. Canadian leadership in communications technology, if it is to be maintained and enhanced, must have a flexible, sophisticated and dynamic marketplace in Canada.
- o Government policies must provide the flexibility to accommodate and promote the introduction of new services, products, and technology as well as their diffusion; and, the industrial restructuring that may accompany them.



Having regard to these principles and in accordance with the Commission's instructions the Government of Ontario is pleased to submit its final argument in regard to both the specific applications and the issues. It is the opinion of the Government of Ontario that the large number of very complex and interrelated issues and the very extensive record can best be approached by dividing its comments into three general areas.

These are:

1. The CNCP application - competition
2. Tariff restructuring
3. Resale and sharing

The remainder of this document provides the Government of Ontario's argument, comment, and recommendations on the issues raised by the Commission and other parties in this proceeding.

In general:

The Government of Ontario, while it supports increased competition in long distance telephone services, does not support any resolutions of the issue which would necessitate increases in local service rates or otherwise affect the regulation of such rates and the universality of service in Ontario. Similarly the Government of Ontario cannot, on the basis of the record of this proceeding, support any principle of tariff restructuring which disturbs the historic rate relationships between local and long distance services. Finally, the record of this preceeding demonstrates that relaxation of the rules governing resale and sharing, can await detailed examination of the underlying tariffs.



## II      THE CNCP APPLICATION-COMPETITION

### 1.      Legal Aspects

The CNCP application, based as it is upon a complaint that Bell Canada and the British Columbia Telephone Company have failed to provide facilities for the interexchange of traffic on the two networks, raises in the first instance a legal question. The question, of course, is the right of CNCP Telecommunications to such relief under the National Transportation Act and the Railway Act. The Government of Ontario does not view its role as encompassing the necessity to provide argument on this point. It is Ontario's view that the applicant and respondents will adequately and fully argue this point. The Government of Ontario's principal interest is in the policy considerations which the Commission should bear in mind in dealing with the competitive and other industrial structure issues which underlie these applications.

### 2.      Benefits and Concerns

The Government of Ontario supports the application of CNCP to provide competition in the provision of voice long distance telephone services because the Government of Ontario is of the view that such competition will provide the benefits generally associated with a competitive market and that this can and should be achieved without any negative impact on local telephone rates. Generally, the Government of Ontario believes that competitive solutions, where they are feasible, are the most appropriate approach to establishing industry structure in the field of



telecommunications. It was for this reason that the Government of Ontario supported the application of CNCP Telecommunications to interconnect its facilities with those of Bell Canada to provide data and private line voice communications. Similarly it was for this reason that the Government of Ontario supported the liberalization of the rules governing the ownership and attachment of customer provided equipment to the networks of the federally regulated carriers. It is the view of the Government of Ontario that competition in the provision of voice long distance services will provide significant benefits to the users of such services and to the Canadian economy generally.

There has been a great deal of media attention and comment on the CNCP application. It would appear that some people associate the CNCP application, if successful, with a need to have significant increases in local telephone rates. The Government of Ontario does not believe that this is the case. Increases in local telephone rates are neither necessary nor desirable should the Commission decide to permit competition in the provision of voice long distance services. It is with this understanding that the Government of Ontario supports the CNCP application.

The Government of Ontario is of the view that the principle of universal access to basic telephone service at affordable rates should not be disturbed by permitting CNCP to compete in the provision of voice long distance telephone service. Ontario is also of the view that CNCP can and should be permitted to compete only under terms and conditions which will have no negative impact on local telephone rates.



Allowing competition in voice long distance telephone service should not result in increases to local telephone rates. Economically disadvantaged people should not be required to give up basic telephone service because of increases in local service rates due solely to allowing competition in voice long distance telephone service. Similarly, small businesses which rely heavily on local service should not be faced with increases in the costs of such service simply because of allowing competition in voice long distance.

A number of parties appearing at the regional hearings, held by the Commission, in Vancouver, Winnipeg, and Hull have expressed support for the provision of voice long distance services in a competitive environment. Several of these are worthy of mention here to indicate the breadth of support for competition. Mr. H. Paige, Assistant Deputy Minister, Communications, for the province of British Columbia spoke to the Commission in Vancouver. At page 40 and the following of the transcript of that hearing Mr. Paige, in part, made the following statement on behalf of the province of British Columbia:

"I want to turn now to the immediate issues on telecommunications competition and its implications. The British Columbia Government wants to make it emphatically clear that it supports the concept of greater competition in the provision of telecommunications services. Competition will, if properly instituted, expand consumer choice, increase efficiency, and give momentum to the process of innovation.

Detractors have argued that inter-



exchange competition will reward the larger users while penalizing others such as residential users and those in remote local areas.

It is true that much of the pressure for liberalized competition has been emanating from larger businesses in the expectation of benefits which they would enjoy.

But those benefits can and will be accessed by others. We have evidence of this already in the terminal market. Once the pace of technological innovation is accelerated in one area, it will quickly spread to other areas. In time, and it will very likely be a short period, all telecommunication users will reap the benefits of competition."

Mr. A.H. Unruh of the British Columbia Association of Colleges commented specifically on the benefits of competition at page 36 and following of the transcript of the regional hearing in Vancouver as follows:

"If CNCP can, as it declares, reduce long distance costs by ten to twenty percent we strongly support that application. I think it's fair to say that the net effect of any reduction in long distance telephone rates on post-secondary education in this province would be improved access to post-secondary education, improved productivity, improved quality of instruction and a better return to the taxpayer of this province for their education dollar."

Mr. Ian Dowdeswell, Director of Technical Services for McMillan Bloedel, speaking to the Commission at the regional hearing in Vancouver indicated at page 374 and following of the transcript the importance of telecommunications costs in a worldwide competitive environment. He stated:



"What is important about that to us is that because of the fact that our business is itself highly competitive and particularly with the U.S. we do find on many occasions that many of these facilities which are strongly beneficial to the way the company runs and hence its profitability and viability are not available to us and it is important to us to have those in order to stay competitive.

Basically there are two things that are very important to us. One is the quality of service and that level doesn't have to be the best in the world, it has to be the level appropriate to what we need and the overriding concern in every situation is cost as I am sure that it is to each of us as individuals as well as companies and anything that will contribute to providing the adequate service and providing a lower cost is significant to the way we operate.

Our experience in the business world, in particular the lumber area is that competition tends to drive the prices down sometimes to our chagrin. Another way, perhaps, of describing that is that it is very difficult for one company to be all things to all customers and hence we would support anything that would provide alternatives or diversity that would also keep the cost down or preferably reduce them as well as provide the appropriate level of service."

In a similar vein Mr. D. Forrestall of the British Columbia Hotels Association addressed the Commission at the regional hearing in Vancouver and stated at page 326 and following of the transcript:



"Competition for interexchange services would enable hotels to purchase lower cost facilities and to make these lower cost alternatives available to its guests.

With Canadian long distance rates now grossly out of line with competitive rates in the United States, Canadian hotels are significantly disadvantaged in attracting corporate and association conferences to meet in Canada resulting in significant losses to our tourism economy.

Currently, due to regulations, hotels cannot meet requests from conference groups for special telephone services and organizers of these groups must make their arrangements far in advance and not always satisfactorily with a one-only supplier.

Due to these restrictions and lack of freedom of choice it again reduces the desire of U.S. conference decision makers to consider Canada an easy place in which to do business.

At the regional hearing in Hull Mr. Alistair McKichan, speaking on behalf of the Retail Council of Canada, made the following observation at page 45 of the transcript:

"We are impressed, for instance, by the beliefs of those supporting this viewpoint, that the competition among companies servicing the long distance market is likely to produce a broader and more innovative range of services, establish telecommunication rates closer to the cost of service, stimulate the marketing effort of carriers, encourage productivity improvements and minimize operating expenses, stimulate the equipment manufacturing sector, encourage the



write-off of obsolete equipment, expand the base of equipment suppliers and generate new employment opportunities."

Also at the regional hearing in Hull Mr. George Regasz-Rethy, speaking on behalf of Ontario Hydro, made the following comment to the Commission at page 161 and following of the transcript:

"Ontario Hydro supports increased interexchange competition, liberalized resale and sharing and the freedom to interconnect local systems. Since the decision of the Commission allowing CNCP to interconnect with Bell Canada, we have noticed a dramatic improvement in our ability to negotiate and obtain services which in the past have been denied or not been made available. We are currently using the services of Bell and CNCP. More tangible benefits include reduced rates for individual facilities and more importantly, diversity of facilities connecting our major centres. This diversity has prevented the loss of data communications which was sometimes the case with a single supplier. And to this end, the additional facilities offered and accepted by Hydro have increased the net payments to both companies."

We also support interexchange competition as a motivator for the development and marketing of innovative and technologically advanced products."

While there is substantial support for the notion of competition in the provision of voice long distance telephone service, there is also substantial concern that competition in this field will lead to a significant increase in local rates. As noted above the Government of Ontario is of the view that such increases are neither necessary nor desirable and that



approval of the CNCP application should only be permitted under terms and conditions which will result in no negative impact on local telephone rates. In paragraph seven of its application CNCP Telecommunications has undertaken to provide a contribution over and above any necessary costs of interconnecting facilities for the support of local rates. At page 942 and following of the transcript Mr. Sutherland on behalf of CNCP Telecommunications responded to a question of Mr. MacDonald of the Consumers Association of Canada in the following way:

"Q. Given that assumption, would you agree that consumers are justified in their concern that competition in long distance may eventually cause local service rates to increase?

Mr. Sutherland: They need not. We are saying that we will make up the contribution -- the appropriate contribution. So there need not be. If they are required by public policy to provide services below the cost -- if they are providing them below cost -- you know, that paragraph seven in our application -- we are prepared to provide a subsidy that is appropriate."

The position of CNCP, as stated above, is a "fail-safe net". There is no need to adjust the existing rate relationships for telephone services solely because of the CNCP application. In the view of the Government of Ontario any services which are found to currently receive a subsidy should not be deprived of such subsidy simply because the CNCP application is approved. CNCP should be required to make a contribution as determined by the Commission in order to maintain such subsidy. There should be no increases required in local telephone rates due to



allowing competition in the provision of voice long distance telephone service.

Concerns have been expressed by several provincial governments that the CNCP application ought not to be dealt with by the Canadian Radio-television and Telecommunications Commission until such time as the several levels of government involved have come to a policy decision. The Honourable Richard Hatfield, Chairman of the Council of Maritime Premiers, spoke to the CRTC at the regional hearing in Hull. At page 192 of the transcript Mr. Hatfield made the following statements:

"Second, we believe, because of the significance of the issue of competition in the provision of long distance telephone service, that governments must determine what changes in the status quo will be in the public interest, taking into account the advantages as well as the disadvantages of change, before any regulators authorize such changes.

...Because governments and regulators are now studying these issues as part of the development of telecommunications policy, it would be premature to make a major change in telecommunications policy until that process is complete. For this reason, the CNCP application must be denied."

The Government of Ontario can sympathize with the sentiments advanced by Premier Hatfield of New Brunswick speaking on behalf of the Council of Maritime Premiers. No doubt, it would be far preferable to have the CRTC deal with the CNCP Telecommunications application in the light of firm government policy formed on an intergovernmental



basis. The fact of the matter is, however, that the CRTC cannot await government policy. It is faced with an application and must deal with that application. This situation was recognized by the Commission when in response to a motion by the Telecommunications Workers Union, made on the first day of the central hearing on October 2, 1984, the Commission stated the following at page 547 of the transcript:

"As a matter of law it is not open to the Commission to refrain from undertaking its statutory responsibility in a timely manner, even where the reason urged upon it is, as proposed here, to await the formulation of a national telecommunications policy by the federal government in conjunction with the provincial governments. The specific applications under consideration in this proceeding have been before the Commission since the fall of 1983 and the Commission is under an obligation to dispose of them, in timely manner."

A course of action designed to delay the introduction of competition, while it might be preferable from an intergovernmental policy development perspective, may not be in the national interest. This is not an issue which should be allowed to be placed on the "infinite supply of back burners" which the policy makers in Canada possess. It is the view of the Government of Ontario that competition in the provision of telecommunications services in the voice long distance field is in the public interest. Ontario is concerned that waiting to introduce competition in this field may have serious deleterious effects on the industry and the Canadian economy. It is clear that where competition in telecommunications has been permitted in the past it has worked to the benefit of Canadians.



It is also possible that delaying the introduction of competition in voice long distance telephone services will adversely affect the degree to which competition is already present. Mr. Sutherland on behalf of CNCP Telecommunications made this point on page 859 of the transcript when he said:

"If Canada is to benefit from the competition that it has had, to the extent that we have been able to provide it for the last hundred years, if it is to continue to benefit from that bearing in mind what is happening technologically, we are going to have to be a provider of all services because they are all appearing as one in the digital switch to digital and integrated networks.

So if there is to be competition, we are going to have to be able to provide message toll voice."

It is, therefore, the position of the Government of Ontario that approval of the CNCP application is in the public interest and that such approval need not, and should not result in any negative impact on local telephone rates, and therefore such approval should not be delayed.

The remainder of Ontario's comments on the CNCP application will address the following four broad areas:

1. Technical considerations
2. Dimensions of competition
3. Payments by CNCP
4. Effect of competition on independent telephone companies in Ontario



It is the view of the Government of Ontario that the detailed and specific evidence which has been brought before the Commission, in support of the CNCP application, as will be discussed below, supports the proposition that it is in the public interest that CNCP's application be approved. It is also the view of the Government of Ontario that approval can be granted in such a fashion that local telephone rates will not be negatively affected.

### 3. Technical Considerations

The nature of the technical arrangements required to effect the interconnection of CNCP's system with those of Bell Canada and the BC Telephone Company in order to provide competition in the provision of voice long distance telephone service was the subject of extensive written evidence. It was not, however, the subject of broad examination during the course of the hearing. Bell Canada, for example, did not provide a witness specifically to deal with technical considerations. CNCP Telecommunications, on the other hand, did provide witnesses who gave testimony during the course of the hearings on this matter. It would appear that any necessary arrangements required to permit the interexchange of traffic for the competitive provision of voice long distance telephone services are technically possible. It is also apparent that the arrangements can be made in a number of different ways. It would seem most likely that the initial connection will be a lineside connection to a Class 5 switch.



We do not intend to deal with technical considerations at any length in these comments. Based on the record it would appear that these matters can be adequately dealt with by the applicant and respondents under the supervision of the Commission. It appears that the working relationship between CNCP and Bell Canada, regarding technical matters, which was required as a result of Telecom Decision CRTC 79-11 is operating smoothly. This relationship was spoken of by Mr. Webster in discussion with Mr. Courtois at page 2112 and following of the transcript as follows:

"Q. Based on your past experience in dealing on technical committees with the telephone companies, do you expect that to work out pretty well?

Mr. Webster: Yes, I do. I was personally involved in the ongoing work after the first interconnection decision, the 79-11, and we formed a very effective relationship with the Bell Canada people, particularly the technical Bell Canada people. And I might say, I was very agreeably surprised at how well our technical discussions went.

Q. Would the matters to be dealt with, with the kind of interconnection you are applying for in this case, be quite a bit more complicated than what arose from Decision 79-11?

Mr. Webster: No. Actually, the private line voice situation technically is a good deal more complex. We were dealing with various types of voice services, particularly tie trunks on PABXs, and as it turns out and is a fact, that there is a great variety of technical arrangements out there on PABXs, and the work also involved designs that incorporated data services as well, and it was fairly involved.



As I see it, on the MTS WATS arrangement, it is not so much complicated -- you work out your designs, but then you repeat the access. You get many accesses through the same design, and basically, there is a lot of work that was done and published under TS 1000, the joint publication of Bell Canada and CNCP, that will be very useful in establishing the line side type connections to end offices. I do not think that there would be any need to repeat this design work.

Q. So that should there be any problems in the areas of standards or compatibility, that these technical committees can deal with that.

Mr. Webster: Yes. On the basis of our previous experience with the Bell Canada technical and operating personnel, I do not anticipate that there would be any difficulty."

It is the view of the Government of Ontario that suitable and adequate arrangements can be affected by the applicant and respondents without further order of this Commission at this time.

Having said that the technical matters would be worked out between the carriers involved, it is worth noting that some disagreements do exist. In rebuttal evidence it became clear that Bell Canada and CNCP have different perceptions of the best method of connection. CNCP it appears would prefer initially line side connections to a class 5 switch. Questioning of Mr. Webster on his rebuttal evidence by Bell Canada suggests that Bell Canada would prefer trunk side connections or connection to a toll switch or to a tandem toll switch. The appropriate connection will in all probability be a matter of negotiation having



regard to the particular circumstances of the connection and the characteristics of the offices involved.

4. Dimensions of Competition

The introduction of competition into voice long distance telephone services must be viewed in the light of the history of the provision of this service. More particularly, competition must be viewed in the light of the historic obligation of carriers to provide service within their serving territory. In addition, the nature and extent of competition which may result from the approval of the CNCP application, and the role of regulating an industry which is undergoing structural changes need to be examined. Each of these matters is discussed below.

a) Geographic Dimension

CNCP has applied for interconnection to the systems of Bell Canada and BC Telephone in order to provide voice long distance telephone services throughout the serving territories of those two companies. It is the view of the Government of Ontario that the introduction of competition should in no way diminish the current responsibilities or obligations of the existing carriers to provide voice long distance telephone service in the territories in which they operate. The telecommunications network in these territories ought to be enhanced rather than limited by the introduction of competition.



Throughout its evidence and in its responses to interrogatories CNCP Telecommunications has indicated its desire to provide a universal service in the territories of Bell Canada and British Columbia Telephone Company within ten years. If the full benefits of competition are to be achieved it is necessary that CNCP provide a competing service throughout the serving territories of the existing carriers. It would appear that CNCP has considered this dimension of competitive supply. At pages 1539 and following of the transcript Mr. Sutherland responded to questions concerning the relative obligations of the existing carriers and of CNCP Telecommunications to provide service in the following way:

"Q. ...I am talking about whether or not, as a matter of practice, you think that regulators, in general -- this regulator in particular -- should have Bell and BC Tel under the same type of obligation for provision of service as they have heretofor.

Mr. Sutherland: It would probably wish them to continue to serve as they have before, and I do not think the granting of our application will in any way, limit them or prevent them from that...

Q. Yes, and do I take it that following the 10 year period that you would expect -- and again I am getting away from the questions of law -- to have the same obligation to provide service as Bell or BC Tel in an area where you are competing with them?

Mr. Sutherland: Well, we have undertaken that obligation that we expect to achieve universal service, and our definition of that is, I would assume, pretty close to what Bell's is, and we



have undertaken that obligation within the 10 year time frame."

It is the view of the Government of Ontario that the existing obligations of Bell Canada and the British Columbia Telephone Company to provide service throughout their serving territories ought not to be disturbed by the granting of the application of CNCP Telecommunications. Further, it is Ontario's view that ultimately CNCP Telecommunications ought to attract the same obligation to provide a competing service to these carriers so that the benefits of competitive supply may result throughout the serving territory of these carriers.

b) Market Penetration

If CNCP is to provide a service which may be expected to produce the benefits which accrue from competitive supply, it must have sufficient market presence to be perceived as an effective competing carrier. The entry of CNCP into the voice long distance telephone service field therefore should be allowed in a manner which will not prevent the company from achieving its potential in terms of market share. It would not be in the public interest to allow CNCP to compete, to require them to compete throughout the serving territories of Bell Canada and the British Columbia Telephone Company and at the same time impose conditions or restrictions which would effectively limit the share of the market which is achievable and thereby limit the market presence of the company. It also would not be in the public interest to establish conditions which would artificially enhance CNCP's competitive position in the market place.



CNCP's entry into the market should be permitted under terms and conditions which are fair to both CNCP and the existing carriers of voice long distance messages. The share of the market that would likely be achieved by CNCP under such conditions would not be so large as to cause any major disruptions but would likely be sufficient to produce the benefits associated with a competitive market.

The evidence suggests that an optimistic forecast of market share for CNCP after ten years of competition is approximately eight percent. In the initial years, after the introduction of competition, CNCP's market share is expected to be very low. At page 959 of the transcript Mr. Sutherland made the following observation:

"Mr. Sutherland: We will pay a contribution if one is -- if what our action prevents the telephone companies from providing the service below cost -- if they are required by public policy to provide them below cost and if in fact they are providing them below cost

Q. Well, we will not know that by the end of this hearing.

Mr. Sutherland: No.

Q. So we can forget about that one.

Mr. Sutherland: There will have to be some faith on that one. But, you know, the Commission can monitor this -- our impact on what we are going to do in the first three or four years, by our figures and by the figures provided by Bell. I mean our penetration will be lost in the rounding with Bell."



It would appear that, in the long run, CNCP is capable of becoming an effective competitor in the provision of voice long distance telephone services. However, in the initial years it is highly unlikely that CNCP will have a significant impact on the existing long distance carriers.

c) The Role of Regulation in the Competitive Environment

It has often been said, and in fact has been said during the course of these hearings, that regulation is a surrogate for competition. This notion perhaps understates the responsibilities of a regulator which must supervise the activities of carriers who operate in both monopoly and competitive markets in the provision of telecommunications services. One would not expect that the introduction of further competition, by virtue of the granting of the CNCP application, would end any necessary regulatory purview of the provision of long distance telecommunications services. This has not been the case in the past where CNCP has competed in other areas with the telephone companies. The fact that the telephone companies will continue to have a significant part of their business based on the provision of services in a monopoly environment will necessitate their continued regulation.

The regulation of CNCP should continue in order to ensure that competition in voice long distance telephone service is initiated in an orderly fashion and will not cause major disruptions, damaging the



interests of either users of monopoly or competitive services. Continued regulatory oversight of CNCP's competitive services is likely to be required to ensure that the objectives of allowing competition without any negative affect on local telephone rates and achieving the benefits associated with competitive markets are indeed being pursued.

It cannot be denied, however, that the role of the regulator in a competitive market is, by the nature of the market, different than it is in a monopoly market. Recognition of this fact, however, must be seen in the light of the existing responsibilities imposed on the CRTC by the National Transportation Act and the Railway Act. The difficulty becomes one of rationalizing a scheme of regulation designed primarily to deal with monopoly markets when those markets evolve into competitive ones. The Government of Ontario is of the view that the existing legislation is not entirely adequate to deal with the supervision by the CRTC of competitive markets.

The strictures of Sections 320(3) and 321 of the Railway Act are well known to the Commission. These sections were the subject of lengthy discussion in the argument presented by parties as a result of the Commission's hearing on terminal attachment. As well parties have addressed these sections in the most recent CNCP application for a general increase in rates which contained an application for approval of the implementation of increases in rates on a deferred basis. The Railway Act is not designed to accommodate the complete flexibility of changes in prices which would be permitted in a fully competitive market.



The Commission has recently indicated in CRTC Telecom Public Notice 1984-55: CELLULAR RADIO SERVICE that Section 320(3) of the Railway Act is capable of an interpretation which would permit a telephone company to charge tolls to the public for services in a case where the particular tolls have not been filed with the Commission. At page 2 of that notice the Commission made the following statement:

"Accordingly, the Commission has determined that, pursuant to Section 320(3) of the Railway Act, both Cantel and any arms-length telephone company affiliate may charge tolls to the public for cellular radio service for which tariffs have not been filed."

The Commission statement is a new and innovative interpretation of Section 320(3) which may or may not be sustainable. Were such an interpretation to be sustainable the Commission would have a broader degree of discretion in determining how to regulate prices in a competitive market than was previously considered possible under the legislation.

The Government of Ontario is of the view that carriers competing in the provision of voice long distance telephone service ought to have a certain degree of flexibility in the pricing of these services. However, the Government of Ontario believes it is preferable to rely on the approach adopted by the Commission in Telecom Decision CRTC 81-26. This approach involves the expeditious handling of individual tariff filings. At page 22 of that decision the Commission made the following observation:



"On the other hand, the Commission is prepared from time to time, as circumstances may warrant, to consider individual tariff filings by CNCP on the basis proposed by it and supported by CAC. In addition to the proposals made by CNCP with regard to the documentation to accompany any such filings, they should include detailed reasons for the proposed rate revisions, together with detailed estimates of the impact of such revisions on CNCP's financial position."

It is the view of the Government of Ontario that the approach proposed by the Commission in the above-noted passage is sufficient for the present time. It is hoped that amendments will occur to the existing legislation to provide the Commission with sufficient latitude to effectively supervise the competitive provision of telecommunications services.

Another issue, raised during the hearing, is the degree of regulation required for CNCP in relation to that required for Bell and BC Tel. CNCP has suggested that the market dominance of the established carriers justifies a different regulatory treatment for them than would be appropriate for CNCP. At page 1347 and following of the transcript Mr. Sutherland made the following observations:

"Q. ...I am wondering if you could describe for me exactly what form of regulation you would anticipate for CNCP should this application be approved? And where it would differ from the regulation you would anticipate with respect to the dominant supplier or suppliers?



Mr. Sutherland: Well, I think we have stated a few examples there where we would like to be able to -- based on changing circumstances be able to move quicker than we are able to now with the time it takes to get rates approved based on cost justification that we could request approval of a rate and be granted it and follow it up subsequently with supporting data. I think we would like the ability to move -- to make adjustments faster than we can currently. That is one that comes to mind.

Q. That would be a distinction between how you would see BC Tell and Bell Canada regulated should this application be approved as to CNCP --

Mr. Sutherland: Yes. They are the dominant carrier and we feel that we have to be able to respond quickly. They have such a large part of the market, they will control circumstances. They are the price leader, we are the price follower and we want to be able to move quickly...

Mr. Sutherland: We are not suggesting that we not be regulated. We just, I think want more flexibility."

And at page 1792 of the transcript Mr. Sutherland had the following exchange with the Chairman:

Mr. Chairman: "Mr. Sutherland you have made reference quite a number of times to less regulation of your company if this application is approved and less regulation for resellers if that was approved. And I am just wondering if you could perhaps indicate to the Commission what you have in mind by less regulation in those two cases?"



Mr. Sutherland: Well, I think, Mr. Chairman, the only example I cited was having to do with rates, where I thought we could perhaps introduce rates without all the cost justification and, in fact, may never be required to give the cost justification. That is one area that I cited.

Another one, possibly, may be - there may not be the limits, since we are not a monopoly, on the earnings we could make in our business.

Those are two that come to mind."

It is the view of the Government of Ontario that different approaches to regulation of the dominant carriers and to CNCP, with respect to rate approval, may be appropriate. It may well be necessary to provide for expedited approval of changes in rates for CNCP, should experience show that they, in fact, are required to respond to actions of the telephone companies and are not in a position to initiate price changes unilaterally.

The abandonment of rate base rate of return regulation suggested by Mr. Sutherland in respect of CNCP raises a number of issues which have not been thoroughly explored in these hearings. The right to make more profit implies the right to make less profit or incur a loss. Sufficient experience in regulating competitive network services has not been gained in order to state whether or not the abandonment of rate base rate of return regulation for CNCP is appropriate. Certainly, it is the view of the Government of Ontario that no such steps should be taken on the basis of the record in this proceeding.



The CNCP application raises an additional regulatory issue in that CNCP proposes to offer long distance telephone services at a price discount. At page 963 of the transcript Mr. Sutherland clearly indicated that it was CNCP's intention to offer discounts of between 10 and 20 percent. At page 932 of the transcript Mr. Sutherland indicated that he believed CNCP would be able to justify these decreases on the basis of cost and still provide sufficient margin for CNCP to make any necessary contribution payments. The following exchange occurred:

"Q. ... now could you tell me briefly how you plan to offer this service at a discount? Why you were able to offer the service at less than Bell and BC Tel charge for it?

Mr. Sutherland: Well to start off -- we will be using the latest in technology. They have a variety of technologies embodied in their system. And as you know, there have been tremendous strides in terms of switch development. Transmission costs; we will be putting in new transmission systems. So generally speaking, I think our plant will be more efficient. We believe our organization is more efficient, partly to the thanks of the telephone companies. And there just is a substantial margin in that service that we feel we can do the thing and do it profitably with those discounts.

It will depend, of course, on satisfactory connection arrangements and charges that are made for contribution. But our expectation is that we can do it."



The Government of Ontario is of the view that price discounts which are cost justified or otherwise justified on the basis of the nature and quality of the service provided are in the public interest and ought to be allowed. The basis of the cost justification is, of course, critical to a determination of the justness and reasonableness of any such rates. At page 3502 and following of the transcript Mr. Withers answered questions in regard to the basis upon which CNCP would propose to cost justify its rates:

"Q. So you do not really know what the cost of the long distance service you will be offering is? You have not costed it?

Mr. Withers: Well, we have costed it many, many times in many, many scenarios, Mr. MacDonald, and we will be filing a tariff based on cost and we undertook that pursuant to the rules and regulations of the Commission at the time. Currently they would be under Phase II costing."

The Government of Ontario considers that the efficacy of the Phase II costing methodology as an appropriate vehicle for the costing of CNCP's competing voice long distance telephone services remains an open question. It may be that until such time as definitive results are available from Phase III of the Commission Cost Inquiry that the principles embodied in Phase II may have to form the basis for cost justification of CNCP's tariffs in this field.

Costing for the provision of services in a competitive market cannot be divorced from the question of route



averaging. The Government of Ontario is of the view that it is in the public interest that prices for voice long distance services continue to be route averaged. That is to say, that a call going a given distance will be priced the same regardless of which two locations are involved. In addition, prices should continue to be non-discriminatory. In this regard Ontario notes that the CNCP application is not predicated on disturbing the principles of route averaging or on any form of discriminatory pricing. Mr. Sutherland made this emphatically clear at page 1138 of the transcript in the following exchange:

"Q. Do you propose to come up with tariffs charging specific rates to specific customers on the basis of cost of providing the service to those customers?

Mr. Sutherland: No, we will not charge different customers different rates.  
No.

Q. No. In act, you are going to have route averaging, are you not?

Mr. Sutherland: We plan to have route averaging, yes."

Regulatory supervision of prices charged by CNCP and competing carriers is necessary to make sure that these regulatory principles are maintained.

##### 5. Future Applications

In its Notice 1984-6, the Commission identified the regulatory treatment of future applications, for the provision of competitive long distance message toll



services as one issue. The present proceeding has had two principal focusses in the competitive field. First, there has been the CNCP application and, secondly, there has been the discussion of resale and sharing. Certainly, both of these initiatives provide mechanisms for competitive supply of a number of telecommunications services.

The CNCP application is clearly distinguishable from the competitive pressure which might result from resale or sharing. It would appear from the evidence, particularly from the Goss/Gilroy Report, that the market for resale and sharing in Canada is limited and probably confined to those situations where a particular "niche" can be found by firms catering to a particular customer need. In contrast, the CNCP application seeks to provide competition with the existing carriers over a broad range of traditional monopoly services. It is therefore probably appropriate that different entry rules apply.

As is discussed below, the Government of Ontario is of the view that resale and sharing is not a critical issue for determination in the time frame of immediate decision making. However, should in the future, rules regarding resale and sharing be significantly relaxed, the number and size of potential entrants indicates that relative ease of entry and exit from the market place is in the public interest.

The entry of a third major competitor of long distance message services would have to be guided by different principles than those for resellers or sharers. Any third entrant would come to market without the



extensive intercity networks which CNCP and Bell Canada and British Columbia Telephone have. Many of the same issues and principles which were the subject of the CNCP application would naturally be applicable to any third entrant. However, the entire market would have to be reviewed prior to allowing a third entrant. A major question would have to be is there sufficient market to sustain three facilities based carriers. Serious overbuilding of plant would be a major issue for examination. The parallel with the railway industry in the early part of the century would be irresistible. The issue would become, would a third facilities-based carrier add so much capacity to the existing networks, that the market could not sustain them.

It is the view of the Government of Ontario that future applications for competitive entry into telecommunications should be dealt with by the Commission in a manner similar to that used for the CNCP application having regard to the market which exists. The principles applied in the current case would seem appropriate for future applications for competitive entry. The Government of Ontario is of the view that it is in the public interest, at this time, to permit further competitive entry in telecommunications only after a thorough public review.

#### 6. Payments by CNCP

The CNCP application is predicated upon the requirement of CNCP to pay both the direct costs of interconnection and to make a contribution for the support of services provided by interconnecting



carriers at less than cost where such services are required to be provided at less than cost in the public interest.

Paragraphs six and seven of the CNCP application are critical in this regard. These two paragraphs read as follows:

"6. CNCP proposes to pay the respondents whatever the Commission may find to be reasonable compensation for the facilities required for the interchange of the traffic in question.

7. Should the Commission be satisfied on evidence presented by Bell Canada or BC Tel that either or both of them are required by public policy to provide telecommunications services at less than cost, and that the granting of this application without compensation additional to the cost of the facilities furnished to CNCP would prejudice the ability of either respondent to comply with that public policy, then CNCP is prepared to pay whatever additional compensation the Commission may determine to be reasonable in the circumstances."

The first element of the payment required by CNCP to connecting carriers is merely the payment required for the cost to those carriers of providing connecting facilities. There does not appear to be any serious dispute that payment for such connections should be made on the basis of costs incurred by the carriers to provide facilities for the connection, including the cost of capital. Facilities therefore should be made available to CNCP at tariffed rates where tariffs have been struck by the companies based upon costs. Where no such tariff exists the facilities should be provid-



ed to CNCP at cost-based prices and the appropriate tariffs struck. Therefore, the Government of Ontario is of the view that payments required from CNCP for connecting facilities is a matter that can be resolved by CNCP and the telephone companies under the supervision of the Commission.

The second type of payments which may be required from CNCP is identified in paragraph 7 of their application. This type is any payment which may be required from CNCP in recognition of the fact that permitting CNCP to compete in the provision of voice long distance telephone service may result in a revenue diminution to existing carriers which in turn may reduce the support available for services which are determined to be provided in the public interest at less than cost. CNCP's position on the appropriate level of any such "contribution payments" is set out at a number of places on the record. Mr. Sutherland's comments at page 941 in the transcript give a most vivid description. At that page Mr. Sutherland stated:

"Mr. Sutherland: Well, as you know, there have been hearings going on on this for years, and we do not think that the costing mechanisms currently being used by the telephone companies are necessarily appropriate, and whether there are cases where local service is being provided below cost, we are not certain. When you assign the costs of the whole -- the local loop and everything -- you assign all that to the local service, and I think that has been rejected by the Inquiry Officer of the Commission as being inappropriate. Who knows? The subsidies may be flowing the other way. We really do not know, and I do not think anybody knows. There is a



costing methodology in place -- put in place by the telephone companies to satisfy their needs, but it is not one that seems to have wide acceptance."

Mr. Sutherland's point in this passage appears to be that Phase III of the Cost Inquiry has not been completed and therefore the degree to which services such as local service may be provided at less than cost and require contribution from more profitable services has not yet been determined. The Government of Ontario is of the view that only the development of actual costs based upon a methodology approved by the Commission in its decision in Phase III of the Cost Inquiry will allow a determination of the actual subsidy flows. Until that decision is made no definitive statement can be made by the Government of Ontario as to the level of any necessary contribution by CNCP, except that it should be determined by the Commission, so as to ensure no significant increase in local rates.

However, delaying approval of CNCP's application until such time as a decision has been made on Phase III of the Cost Inquiry and until such decision has been implemented and actual results made available may be detrimental to CNCP. This issue was addressed by Mr. Sutherland at page 948 of the transcript as follows:

"Q. And am I correct in stating that is is CNCP's position that a definitive resolution of the contribution payment, the level of that payment, must await the approval and implementation of the cost methodologies?



Mr. Sutherland: No, I do not think we said that. I do not think we would want to wait that long."

It would appear to be CNCP's position that it is undesirable for them to await the outcome of Phase III prior to entering the market. The Government of Ontario is of the view that it is possible for CNCP to enter this market prior the completion of Phase III of the Cost Inquiry.

In the absence of definitive cost information it will, of course, be extremely difficult to determine the precise level of contribution which may be required from CNCP. However, the realities of the situation must be taken into account. Certainly, in the early years, CNCP cannot be expected to have a significant impact on the revenues that the telephone companies derive from the voice long distance telephone service market. Mr. Sutherland addressed this point in relation to the level of contribution payments at page 1029 of the transcript in the following passage:

Mr. Sutherland: Well, you know, in the initial years, pending perhaps completion of the Cost Inquiry, our penetration into this business, based on our estimates, based on Bell's estimates, are really going to have very little impact on any possible adverse effects. The Commission will set some rates for the initial years, the impact is very small, any possible negative impact would be very small, and the Commission is at liberty, based on the initial judgement they make to make alternate judgements as experience is gained. So it will be cut and try in the first year, and if they have



been too harsh on us or too easy on us, they can adjust in subsequent years."

The approach suggested by Mr. Sutherland appears to be that the Commission should set a level of contribution payment which it feels to be appropriate for the initial year. After a year's experience has been gained the Commission may determine whether or not the level of contribution has been sufficient to avoid any adverse impact which the telephone companies may experience in respect of support for other services which they provide at less than cost. The Government of Ontario is of the view that this approach is consistent with the objective of providing CNCP with an opportunity to compete in the voice long distance telephone field at an early date while ensuring that such competition does not result in an adverse impact on other services provided by the telephone companies. It is the view of the Government of Ontario that it would not be appropriate to await the outcome of Phase III of the Cost Inquiry prior to allowing CNCP entry into this market.

The method to be used in calculating the actual amount of contribution payments has been the subject of much discussion during the course of these hearings. A number of different approaches have been suggested. It has been suggested that a payment calculated on CNCP's gross revenues from the provision of this service would be an expeditious way of approaching the problem. It has also been suggested that a flat rate per access line would be an appropriate way to approach the problem. Another suggestion is that the contribution should be determined having regard to minutes of use on the telephone companies' facilities.



Each of these approaches has advantages and disadvantages associated with it. It is not Ontario's intention to comment on each one of them as they were explored during the course of the hearings. The approach which was discussed most was a flat charge per access line. The Government of Ontario is of the view that payment of a flat rate charge per access line is probably the most easily understood and readily implementable of the approaches suggested.

One of the most critical questions regarding the contribution payments to be paid by CNCP for the support of services provided in the public interest at less than cost is whether or not they will ultimately be required. The necessity of such payments will be dependent upon the results of Phase III of the Cost Inquiry and the degree to which the market may be stimulated by the entry of CNCP. The possible impact of Phase III has been discussed in the foregoing. The question of market stimulation is discussed below.

If the price elasticity of voice long distance service is greater than one then it would be expected that the price decreases associated with CNCP's entry would stimulate the market and enhance the overall revenue position of the connecting telephone companies. If the elasticity of demand for long distance telephone services is less than one then it would be expected that the price decreases associated with CNCP's entry into the market would have an overall negative effect on revenues associated with this service. During the course of the hearings various estimates of the price elasticity of demand for long distance telephone service were provided. Mr. Davidson of Bell Canada estimated the price elasticity to be minus 0.4.



Mr. Watt of CNCP estimated price elasticity to be minus 1.3. The estimate contained in the Peat Marwick Report is minus 0.9. All of these estimates appear to have been prepared in good faith and statistically valid. Given such a broad range of estimates it is difficult to choose one as being the most appropriate and accurate.

The question of price elasticity was addressed in rebuttal evidence by both Bell Canada and CNCP. The crux of the issue in rebuttal was the appropriate manner in which to estimate a market size variable and the reasonableness of including such a variable in deriving estimates of elasticity. The evidence of Mr. Tylor and Mr. Watt is not conclusive on this point. Indeed, considering that significant real price discounts will result in demand at levels of output that have not been experienced, it is doubtful that any estimate will be meaningful, until it can be tested against actual results.

It is the view of the Government of Ontario that only actual experience with competition and the resultant lower prices will ultimately determine whether or not the demand for voice long distance telephone services is price elastic. It is the view of the Government of Ontario that the Commission should initially establish the level of contribution payments that CNCP will be required to pay based on its judgement of the level of support required and on its judgement of the likely price elasticity of voice long distance telephone service. As more information becomes available the Commission will be able to make any necessary adjustments to the level of contribution payments.



7. Independent Telephone Companies in Ontario

An Order of the CRTC which permitted interconnection between CNCP and Bell Canada in order to allow CNCP to provide voice long distance telephone service could have two types of impact on the independent telephone companies in Ontario. First, the question arises to whether or not subscribers of independent telephone companies in Ontario would have the capability of accessing CNCP's long distance telephone service and the effect that such access would have on the revenues of the independent companies. Secondly, there is the possible effect of revenue diminution on the independent telephone companies resulting from any general decrease in revenues available to Bell Canada for settlement with these companies.

With respect to the first possibility, that is, the ability of subscribers of independent telephone companies in Ontario to access the long distance service of CNCP, Mr. Tegelberg explained CNCP's plan at page 1096 of the transcript. At that point of the transcript Mr. Tegelberg explained the manner in which CNCP would prevent subscribers of independent telephone companies from accessing CNCP's service. He stated:

"Mr. Tegelberg: Mr. McCallum, the way we propose to handle that is, we would not knowingly give an authorization code to a subscriber of an independent telephone company. So in that effect, we would prevent as much as possible originated traffic from travelling over our system."

With respect to independent telephone companies which have EAS arrangements with an adjacent Bell exchange



Mr. Tegelberg explained CNCP's plan at page 1098 of the transcript in the following way:

"Q. I see. Now, there are occasions when an independent telephone company has extended area - of - service arrangements with an adjacent Bell exchange, is that not true?

Mr. Tegelberg: That is true.

Q. Now in those cases, would you be able to block traffic going through on an EAS basis?

Mr. Tegelberg: In the manner that I described earlier, in that we would not give them an authorization code. If we knew that they were in the independent territory that had EAS with the telephone company exchange that we were interconnected with, we would in that fashion."

It would appear that diligence on CNCP's part would prevent subscribers of independent telephone companies from accessing the voice long distance telephone service to be provided by CNCP. In effect, this would mean that no revenue diminution should arise to the independent companies as a result of direct loss of traffic to CNCP in an unauthorized way.

There remains the question of any possible revenue diminution accruing to the independent telephone companies in Ontario from any decrease in available revenues as a result of lower prices charged for long distance services occasioned by the introduction of competition. Currently in Ontario, independent telephone companies' rates for the provision of long



distance telephone services are the same rates as charged by Bell Canada. Independent telephone companies do not file separate tariffs for toll services for approval by the Ontario Telephone Service Commission. Were Bell Canada to decrease its rates for long distance telephone services, independent telephone companies would be in the position of either accepting such a change for the purpose of the tolls charged for their subscribers or adding other charges to make up any deficiency which might arise. Naturally, the effect of any market stimulation due to the price elastic effects is a consideration in determining what, if any, effect decreased toll prices might have in independent territory. As we have noted above this is still an outstanding question which only experience is likely to answer. In the interim, however, there is no mechanism in place which would allow independent telephone companies in Ontario to recover any possible losses directly from CNCP in the case where there is no interconnection with CNCP.

Another possible difficulty for the independent companies arises in relation to CNCP's ability to block calls terminating in an independent's territory. At page 1097 of the transcript Mr. Tegelberg indicated that it was not CNCP's intention to block such traffic. He stated:

"Q. What about blocking terminating traffic?

Mr. Tegelberg: It is something, as we have stated, that it is practical to do. (Sic)

Q. And do you intend to do that?



Mr. Tegelberg: No, we have stated that we had not, because we did not feel that there was an impact on the independents from allowing the traffic to terminate."

However, there may well be an impact because the independent companies may be treated differently, than Bell Canada or BC Telephone, by CNCP. CNCP requires access lines at the originating end and at the terminating end of a telephone call. If the contribution payment, by CNCP, is made on the basis of access only, as some suggested, then Bell and BC Tel can adjust the charge to reflect the fact that CNCP requires access at both the originating and terminating ends of the telephone call. The independent telephone companies however, will not be able to do this if there is no direct interconnection with CNCP.

They will receive no compensation from CNCP but their costs and revenues may be affected. The impact on costs arises because terminating CNCP traffic will make use of independent telephone company facilities for which no payment is made. The impact on their revenues could occur if CNCP were terminating calls in independent territory and such action reduced the overall revenue available to Bell Canada. Bell Canada and the independents might renegotiate the revenue settlement with a view to properly assessing and addressing the impact which interconnection with CNCP has had.

It is the view of the Goverment of Ontario that an Order of the CRTC permitting CNCP access to the public-switched network of Bell Canada should consider



the possible effect produced by CNCP terminating traffic on independent telephone companies in Ontario. Similarly, it is the view of the Government of Ontario that any such Order should consider the possible effects on the revenues of the independent telephone companies in Ontario resulting from any diminution of revenues available for settlement with the independent telephone companies in Ontario.



### III TARIFF RESTRUCTURING

#### 1. Background

Tariff restructuring or "rate rebalancing" was a topic of much discussion in these proceedings. Fundamentally, it would appear that the type of tariff restructuring envisaged by Bell Canada and BC Telephone is a move away from historic value of service pricing principles to a system of pricing telecommunications services on a cost related basis. As a result of the discussion on rate rebalancing which occurred during the course of these hearings and the illustrative rates which have been filed by the carriers, it would appear that rate restructuring as currently envisaged would result in lower long distance charges and higher charges for local services.

It was suggested by some participants at the hearing that a discussion on tariff restructuring in the context of the current proceeding was not appropriate.

At page 552 of the transcript, Mr. MacDonald, on behalf of the Consumers Association of Canada, made a formal motion to the Commission for an order:

"Denying the request by Bell Canada and the request by BC Tel that the Commission endorse the principle of rate rebalancing in its decision in this case, and also denying the request by Bell Canada for approval in this hearing of the specific rate increases being sought in year one of their rebalancing scheme."

At page 569 of the transcript the Government of Ontario stated its position on the Consumers Association's motion in the following terms:



"It is our view that the issue of rate rebalancing or tariff restructuring is a stand-alone issue. It is not a necessary part of this hearing as far as we are concerned. In our view, it is premature to consider the wholesale rebalancing of the telecommunications tariffs.

This issue, if it is to be discussed, should be discussed as a stand-alone item when the attention of all interested parties can be directly focused on it."

However, CRTC Telecom Public Notice 1984-6 dealt specifically with the possible effect on local rates resulting from competition. At page 7 of the Notice the Commission specifically requested comment on the impact of competition on:

- "(v) Rates for local telephone service and the resultant implication for local service accessibility"

For this reason and others, the Commission, in ruling on the motion made by the Consumers Association of Canada, stated that the issue of the relationships between local and long distance rates was a matter that was properly before the Commission in this proceeding.

The Government of Ontario remains of the view that rate rebalancing is not an issue which is a necessary part of this proceeding. Nevertheless, having regard to the Commission's ruling on this matter, the Government of Ontario will provide what comment it can on the basis of the record in this proceeding.



2. The Rationale for Rate Rebalancing

Bell Canada has proposed that the principle of rate rebalancing is an appropriate principle for the Commission to approve in the context of this proceeding. The basic rationale advanced by Bell Canada for this position is contained in their evidence at page 5 in the following passage:

"In the Company's opinion there are many pressures which will cause the rates for telecommunications services to move closer to their costs. The sources of pressure for this "rebalancing" of the company's rates are discussed in this section under the following headings:

- a) The Change in Canadian Opinions and Attitudes
- b) Technological Developments and Bypass
- c) Consumer Choice

The Company believes that the pressures from these sources are so strong that there must be a rebalancing of the Company's rates regardless of the decision with respect to increased competition."

At page 2737 and following of the transcript Mr. MacDonald, on behalf of the Consumers Association of Canada, discussed the three reasons advanced by Bell Canada for rate rebalancing with Mr. Hewat. At page 2739 the following exchange took place:

"Q. So really, from a telephone company perspective, this first reason comes down to bypass?"

Mr. Hewat: The first reason comes down to bypass."



Then later at page 2740 of the transcript the following exchange took place:

"Q. But bypass is still a significant component of that third problem?

Mr. Hewat: It is a component, Mr. MacDonald, I do not know that I would get to the adjective "significant"."

Finally, at page 2741 of the transcript Mr. Hewat made the following comment:

"Mr. Hewat: I would certainly agree with you to this degree, if this is helpful, that bypass, in one form or another, is indeed a significant factor in the rationale for rebalancing."

It would appear from a reading of the evidence and Mr. Hewat's comments that rebalancing is predicated to a very large degree on the potential for uneconomic bypass of telephone company facilities if rate rebalancing does not take place. The fear appears to be that if long distance charges are not decreased, users will avail themselves of more cost effective means of delivering their long distance traffic.

Given that the rationale for rate rebalancing appears to be to a large extent based on a need to avoid bypass of telephone company facilities, a number of questions arise. What customers are likely to bypass telephone company facilities? What customers are currently engaging in bypass? To what extent do current tariff rate relationships already address the



problem of bypass? What is the revenue impact of bypass?

The questions outlined in the preceding paragraph were addressed by various parties during the course of the hearing. At page 2787 and following of the transcript Mr. Hewat answered questions with respect to the types of customers who would likely wish to bypass and the likelihood of their doing so in the following way:

"Q. ...Now, if I understand what you said earlier correctly, Bell Canada's largest worry in terms of bypass is the largest customers -- its largest customers. They are the ones that make a disproportionate amount of long distance calls?

Mr. Hewat: That is correct.

Q. Is the federal government your largest customer?

Mr. Hewat: Federal government in terms of revenue, yes.

Q. Yes. Do you expect them to break their laws?

Mr. Hewat: No.

Q. Okay

Mr. Hewat: They did not in the case of the TVROs.

Q. Would you expect any of the largest corporations of Canada to consciously break the law?

Mr. Hewat: I would not expect so, but the pressures are going to become very, very great for them, not necessarily to break the law, per se, but certainly to bring pressure to bear to change the rules.



Q. Right. But -- in other words, they will be -- unlike the previous case, you would expect them to start lobbying heavily, but not to put the dishes on their roof while -- if the law prohibits it?

Mr. Hewat: I would not expect them to."

At page 2752 of the transcript Mr. Hewat addressed the incentive for corporations to engage in bypass in the following way:

"Q. Do you postulate the circumstances of various customers in Montreal/- Toronto, or anywhere in the Bell territory, and do a work-up of the economics to that customer of bypassing the network?

Mr. Hewat: We have looked at some where individual customers themselves have opted for either intra or intercity microwave and have come to us and said, we have this option, we believe, as a technology, and we have costed it for our own purposes. Now, what can you offer us in lieu of that?

But we have not worked it up on the basis of doing a sample of customers and coming to a set of general conclusions, no."

It would appear that large customers have the most incentive for engaging in bypass and that some have actively investigated the possibility of building their own facilities to do so. However, it would appear that there is very little likelihood of these large customers actually engaging in bypass and there is no evidence of the circumstances under which they might be likely to attempt to do so and be successful.



The record demonstrates that both Bell Canada and CNCP have had difficulty in identifying the nature and quantity of bypass that may be occurring today. At page 2755 and following of the transcript Mr. Hewat made the following comments:

"Q. Just to refer to the interrogatory I mentioned, it is Bell (Director) 22 May 1984-131, and I will just read the first sentence in the answer:

"Bell Canada cannot identify any current instances where domestic Canadian traffic is being routed through the U.S. in contravention of Telecom Canada's policy."

Mr. Hewat: I think that is generally correct. The two that I was referring to were two that we were examining.

Q. Thank you. And Bell is aware of only a handful of businesses who have actively investigated obtaining their own facilities.

Mr. Hewat: Yes. I think that is correct, recognizing that there is a certain impediment at the moment to being able to bring that to fruition.

Q. Bell has not examined the economics of bypass to any great degree?

Mr. Hewat: Bell has examined it only in the context of being able to look at technologies, and the prices of those technologies and what they would deliver, yes.

Q. And Bell has not done a careful analysis of the reasons why companies have bypassed in Canada or the U.S., or may be thinking of bypassing?

Mr. Hewat: Other than those that I stated, no."



Mr. Sutherland of CNCP similarly had difficulty in attempting to quantify bypass at page 1110 of the transcript he stated:

"Q. So it is extremely difficult to be specific about the extent to which bypass may exist currently. Is that correct?

Mr. Sutherland: It is difficult in the business we are in to quantify it."

It would also appear that, in the past, the carriers have to some extent addressed the problem of bypass in that where customers have come to them with specific plans to bypass the network they have responded with appropriate tariff changes. Mr. Hewat commented on this at page 2752 of the transcript in the following way:

Q. Now you say the customer comes to you. The customer comes to you looking for a better deal from Bell in order that they will not have to make this significant expenditure.

Mr. Hewat: I think that is the bottom line.

Q. And Bell has responded with new and different services over the years to meet that special need.

Mr. Hewat: To the degree that we have been able to, yes.

Q. And I think you said yesterday -- and I could not find the comment in the transcript last night, I am sorry -- but the actions that Bell has taken over the past 20 years indicate the concern you have about bypass, and the action you are referring to, with the packaging of services.



Mr. Hewat: Yes, I did.

Q. Now, these different service offerings make less of a contribution to network access costs and regular MTS/WATS, would they not?

Mr. Hewat: That is correct.

Q. And the impact of those changes have already been absorbed in the rate structures of the telephone company.

Mr. Hewat: Yes, they have."

Finally, given that the nature and extent of bypass has not been quantified, it is not surprising that any revenue loss associated with such bypass similarly has not been quantified. Mr. Hewat of Bell Canada specifically stated that at page 2756 of the transcript in the following way:

"Q. Bell Canada has not estimated the amount of revenue it will lose to bypass if no rebalance occurs?"

Mr. Hewat: That is correct."

And then again at page 2743 of the transcript Mr. Hewat stated:

"Q. Now, given the relationship between these two factors, can you tell me what is the total amount, in 1984 dollar terms, of the long distance revenue that you have projected could be lost to your company by the year 1990 if there is no rate rebalancing?"

Mr. Hewat: I have not projected that in those terms, Mr. MacDonald."

It appears clear that the basic rationale for rebalancing is the threat of uneconomic bypass of telephone company facilities with its resultant



revenue loss to the telephone companies. It is equally clear that there does not appear to be any immediate threat of such revenue diminution resulting from uneconomic bypass. There would therefore appear to be very little need for the Commission to take hasty action in addressing a potential problem that has been only partially explored. Indeed the problem has to date only really been explored in the proceeding whose principle focus was on the introduction of competition into the voice long distance telephone field.

It is the view of the Government of Ontario that the determination of the extent to which prices are not properly aligned with costs must await the implementation of a meaningful costing system, as approved by the Commission, as a result of Phase III of the Cost Inquiry. If such a costing system produces information which demonstrates that the prices of particular services are not recovering the costs of providing those services then, and only then, can a restructuring of the traditional relationship of local and long distance rates even be considered. The actual necessity of making such changes should, in part, be dependent upon the likelihood of significant revenue losses to the telephone companies in the absence of such price changes. In considering any such price changes, serious consideration must be given to the possible effect of increases in local rates upon the ability of large numbers of economically disadvantaged people to be able to continue to afford basic telephone service.



However, the issue as to whether or not any such adjustments will be required is not a necessary part of the issues related to the introduction of competition in the voice long distance field. At page 1009 of the transcript Mr. Sutherland addressed this matter, from CNCP's perspective, in the following way:

Mr. Sutherland: They talk of rate balancing but rate rebalancing -- that is based on the present costing system, and I indicated, I think, yesterday if the -- a revised costing system may not indicate any rate rebalancing as required. As you know, it is based on a costing system which a number of people have cast doubt and I guess the telephone companies would like to put a lot of their costs in a safe haven, in local service, but that is not really anything to do with our application. It is a matter entirely outside of our application and it may be more concerned with the bypass from - via U.S. networks. Our application has nothing to do with bypass, and that has been made abundantly clear, I believe."

It is therefore the view of the Government of Ontario that rate rebalancing should not be approved as a matter of general principle, in the context of the present proceedings, merely because the effects of competition on local rates is at issue. It is the view of the Government of Ontario that there is no justification for rate rebalancing at this time based on the likely impacts of competition. This is particularly true since other mechanisms are available to address any effect which competition per se may have on local or other rates, such as the proposed subsidies by competitors to assure no increase in local rates.



3. Basis for and Timing of Rate Rebalancing

While the Government of Ontario is of the view that the necessity and rationale for rate rebalancing has not been clearly established, should the Commission, in its decision, determine that it is appropriate to approve of rate rebalancing as a matter of principle then the Government of Ontario has a number of concerns.

First, as has been alluded to a number of times in these comments, there is serious concern on the part of a number of parties as to the availability of definitive cost information which would permit the Commission to identify subsidy flows. Until Phase III of the Cost Inquiry has been completed and a decision of the Commission issued, it is not possible to say whether or not local service rates are the beneficiary of subsidies from other services. Similarly, it is impossible to say to what extent, if any, long distance services are provided at prices which produce revenues capable of providing subsidies. Therefore, any decision of the Commission to approve of the principle of rate rebalancing in this proceeding should take into account the lack of definitive cost information.

Secondly, the Government of Ontario would be concerned about the timing associated with any introduction of rate rebalancing should the Commission determine that it is appropriate to approve of it as a matter of principle. There would appear to be no urgent requirement that rate rebalancing occur immediately.



Mr. Hewat, in commenting on the timing of the implementation of rate rebalancing, made the following comments at page 2617 of the transcript:

"Mr. Hewat: ...Given that the timing seems to be appropriate, then one can say that that can be done in a fairly graceful way. It may not be done in 2 or 3 years, it probably need not be done in 5, but it needs to be done. And more appropriately, it needs to be started."

Therefore, it would be the view of the Government of Ontario that even should the Commission determine that it is appropriate to approve of rate rebalancing as a matter of principle it should not proceed to implement any portion of any rate rebalancing scheme immediately.

A third concern which the Government of Ontario would have with respect to the approval in principle of rate rebalancing involves the procedures that would occur to ensure that proper notification was given to subscribers and that an opportunity was provided for a full public discussion prior to any changes actually being made in the rates. It had been our understanding that Bell Canada did not intend that approval in principle of rate rebalancing would obviate any of the normally mandated requirements for customer notification and the usual public process associated with changes in tariffed rates. However, the comments of Mr. Hewat at page 2874 and following of the transcript in discussion with the Chairman leaves Bell's intentions in doubt. Mr. Hewat stated in an exchange with the Chairman:



"The Chairman: Mr. Hewat, perhaps I can just clarify my -- I am still not clear on what you are saying. Are you saying that you expect out of this proceeding that there might be increases in rates as a consequence of the acceptance of the principle of rebalancing?

Mr. Hewat: I think there are two points, Mr. Chairman. One is the question of the acceptance of the principle of rebalancing, and one is if that principle is accepted in rebalancing then it is our desire that the judgement also include a commentary or an approval to proceed with first year rebalancing as it has been outlined.

Of course, that is in the hands of the Commission, but we believe that the timing is such that we should proceed with this, and obviously, if we try now and roll it into the rate case as either an appendage to the rate case or deal with it as an entirely separate matter, then we are probably not looking at commencing any restructuring until 1986.

The Chairman: But then, as Mr. MacDonald said, that would imply an approval of rate increases for subscribers without any notification of those specific proposed increases being made?

Mr. Hewat: I suppose it would, and that indeed may be a difficulty."

It is the view of the Government of Ontario that should the Commission approve of the principle of rate rebalancing in the decision resulting from this hearing process, such approval should not include any approval of specific rate increases. It is the view of the Government of Ontario that any specific rate increases should be the subject of notification to



affected subscribers and the usual public processes associated with the review of a request for a general increase in rates.

Finally, quite apart from the likely implications of competition, conclusions regarding costing, or the hypothetical threat of bypass, the Government of Ontario strongly believes that local telephone rates are, and properly should be, a matter of public policy. Ontario is of the view that affordability and universality of basic telephone service are highly desirable objectives. The Government of Ontario believes that these objectives would be threatened by rate rebalancing, as proposed, and therefore concludes that the proposal is not in the public interest at this time.



IV        RESALE AND SHARING

1.        Introduction

Resale and sharing was not the subject of extensive testimony by parties participating in these proceedings. The principal piece of evidence which addressed the topic was the Goss/Gilroy Report, which was filed as CRTC Exhibit 4. Given that few parties have addressed the topic in detail, it is difficult to assign a high degree of public importance to the issues related to it. Nevertheless, to the extent that information has become available and issues have arisen during the course of this hearing, the Government of Ontario is prepared to offer the following comments.

Various parties to this proceeding have attempted to define the terms resale and sharing. Although no serious disparities exist among the various definitions offered, perhaps those given by CNCP are the most precise. CNCP definitions as provided at page 4 of its evidence on resale and sharing are as follows:

"Resale is an activity wherein an entrepreneur subscribes to the communications services of a common carrier and then reoffers communications services to the public, with or without adding "value", for profit.

Sharing is a non-profit arrangement in which several users, perhaps having no community of interest other than to communicate between the same two geographic points or to communicate with each other, collectively use communications services obtained from an underlying carrier or a reseller.



Each user pays the communications related costs according to its pro-rata usage of such communications services."

It is the view of the Government of Ontario that the CNCP definitions are adequate descriptions of these activities for the purpose of this hearing.

Since there was no specific application for any particular type of resale or sharing the evidence was not directed towards any specific type of resale or sharing. Nor has there been any evidence specifically directed at what changes should be made to the rules or regulations which govern resale and sharing. Therefore, the issue of resale and sharing is reduced to a rather general one; that is, should the rules and regulations which prohibit the resale and sharing of carriers, facilities be relaxed. Generally, the Government of Ontario is of the view that such rules and regulations should be relaxed. Permitting resale and sharing should add a further dimension to competition in telecommunications which would be in the public interest. As well, permitting resale and sharing of carrier services should help bring prices in line with their underlying costs and give proper economic signals to the marketplace. However, the Government of Ontario is of the view that there is no urgent requirement to approve a policy of allowing resale and sharing in general, immediately. The Commission has dealt with a specific request by Canadian Satellite Communications Inc. for permission to sublet unused capacity on the full period 14/12 GHz RF Channels it leases from Telesat. This was done in the context of its decision on Telesat's 1983 general rate application. The Commission may of course continue to deal with other specific applications as they are made.



2. Resale and Sharing and Current Conditions

As already noted, there is no specific application before the Commission requesting the CRTC to permit resale and sharing. It is possible that this may be the result of current market conditions. At page 50 of the Goss/Gilroy Report the authors made the following comment:

"Given Canadian tariff structures -- both current and projected -- it is felt that the risk of basing a resale business on off-peak usage are too great for the relatively small and highly speculative returns which are available."

If no market potential currently exists in other areas involving resale and sharing, then no harm is done by delaying the introduction of resale and sharing until after other events have occurred.

Many examples of resale and sharing appear to be based on the margin which exists between the discounted prices available when bulk telecommunications services are purchased and the price charged by the telecommunications companies for single units of the same telecommunications services. The reseller purchases in bulk and then sells the services at less than the unit price charged by the telephone companies. If the prices charged for the purchase of bulk facilities are in fact non-compensatory then allowing the introduction of resale which is based on such tariff prices may very well not be in the public interest. At page 10 of its resale and sharing evidence CNCP stated the following:



"A more practical approach would be to provide the common carrier with an opportunity to make any adjustments to their tariffs which they may regard as necessary prior to the removal of the tariff prohibitions against resale and sharing. Such rate restructuring would enable potential resellers to judge the true market opportunities that exist and would prevent the chaotic situation that could arise if artificial market conditions were to induce entry by resellers."

The Government of Ontario agrees with this statement. Resale and sharing predicated on artificial margins which are later eliminated would cause serious inconvenience to users. Services which would appear to be prime candidates for resellers to make use of are the telpak offerings of Bell Canada and the bulk facilities services of CNCP. In the U.S., it appears that the introduction of resale and sharing has brought about the elimination of similar service offerings. Currently, many large businesses have availed themselves of the discounts made possible by the availability of these service offerings. It would not seem desirable to withdraw these tariffs precipitously. Such withdrawal of these offerings could cause serious dislocation to current users of the services.

While the Government of Ontario has no objection in principle and, in fact, supports the idea of resale and sharing of telecommunications services, the Government of Ontario is of the view that there is no immediate need for the Commission to relax the rules governing resale and sharing at this time. It is the view of the Government of Ontario that introduction of a general policy allowing resale and sharing should be delayed until the Commission can be satisfied that the underlying tariffs are cost justified.



V      CONCLUSIONS AND RECOMMENDATIONS

This final section provides a brief summary of the comments made by the Government of Ontario in this final argument.

1.      Basic Principles

- o      Universality of access by Canadians to basic telecommunications services at affordable rates must be maintained.
- o      Fairness to all parties and regions must be promoted by regulatory arrangements.
- o      Recognizing that competition is not always adequate to the purpose, regulation is necessary to ensure that telecommunications services are provided on just and reasonable terms.
- o      There must be a full opportunity for Canadian business to be competitive and to have access to a wide range of competitively priced telecommunications services.
- o      There must also be the fullest opportunity for the development, implementation and commercial exploitation of new telecommunications technology in Canada. Canadian leadership in communications technology, if it is to be maintained and enhanced, must have a flexible, sophisticated and dynamic marketplace in Canada.



- o Government policies must provide the flexibility to accommodate and promote the introduction of new services, products, and technology as well as their diffusion; and, the industrial restructuring that may accompany them.
- 2. The CNCP Application - Competition
  - o The Government of Ontario supports the application of CNCP to provide competition in the provision of voice long distance telephone services.
  - o Ontario is also of the view that CNCP can and should be permitted to compete only under terms and conditions which will have no negative impact on local telephone rates.
  - o The Government of Ontario is of the view that such competition will provide the benefits generally associated with a competitive market and that this can be, and should be, achieved without any negative impact on local telephone rates.
  - o It is the view of the Government of Ontario that competition in the provision of voice long distance telephone services will provide significant benefits to the users of such services and to the Canadian economy generally and is therefore in the public interest.



- o Increases in local telephone rates are neither necessary nor desirable, should the Commission decide to permit competition in the provision of voice long distance telephone services.
- o The Government of Ontario is of the view that the principle of universal access to basic telephone service at affordable rates should not be disturbed by permitting CNCP to compete in the provision of voice long distance telephone service. Economically disadvantaged people should not be required to give up basic telephone service because of increases in local service rates due solely to allowing competition in voice long distance telephone service. Similarly, small businesses which rely heavily on local service should not be faced with increases in the costs of such service simply because of allowing competition in voice long distance.
- o It is the view of the Government of Ontario that any services which are found to currently receive a subsidy should not be deprived of such subsidy simply because the CNCP application is approved.
- o It is the view of the Government of Ontario that approval of the CNCP application can be granted in such a fashion that local telephone rates will not be negatively affected.



- o Ontario is concerned that waiting to introduce competition in this field may have serious deleterious effects on the industry and the Canadian economy and therefore approval of the CNCP application should not be delayed.
- o It is the view of the Government of Ontario that suitable and adequate technical arrangements can be effected by the applicant and respondents without further order of this Commission at this time.
- o It is the view of the Government of Ontario that the existing obligations of Bell Canada and the British Columbia Telephone Company to provide service throughout their serving territories ought not to be disturbed by the granting of the application of CNCP Telecommunications.
- o It is Ontario's view that ultimately CNCP Telecommunications ought to attract the same obligation to provide a competing service to these carriers so that the benefits of competitive supply may result throughout the serving territory of these carriers.
- o CNCP's entry into the market should be permitted under terms and conditions which are fair to both CNCP and the existing carriers of voice long distance messages.
- o The Government of Ontario is of the view that the provision of voice long distance telephone



services by Bell, BC Telephone and CNCP should continue to be regulated to ensure that the objectives of allowing competition without any negative affect on local telephone rates and achieving the benefits associated with competitive markets are indeed being pursued.

- o The Government of Ontario is of the view that existing legislation is not entirely adequate to deal with the supervision by the CRTC of competitive markets.
- o The Government of Ontario is of the view that carriers competing in the provision of voice long distance telephone service ought to have a certain degree of flexibility in the pricing of these services.
- o The Government of Ontario believes that the appropriate approach, at this time, is the expeditious handling of individual tariff filings as outlined by the Commission in Telecom Decision CRTC 81-26.
- o It is the view of the Government of Ontario that different approaches to regulation of the dominant carriers and to CNCP, with respect to rate approval, may be appropriate.
- o The Government of Ontario is of the view that price discounts which are cost justified or otherwise justified on the basis of the nature and quality of the service provided are in the public interest and ought to be allowed.



- o The Government of Ontario considers that the efficacy of the Phase II costing methodology as an appropriate vehicle for the costing of CNCP's competing voice long distance telephone services remains in question.
- o It is the view of the Government of Ontario that no steps should be taken concerning the possible abandonment of rate base rate of return regulation of CNCP on the basis of the record in this proceeding.
- o The Government of Ontario is of the view that it is in the public interest that prices for voice long distance services continue to be route averaged and further that such prices should continue to be non-discriminatory.
- o It is the view of the Government of Ontario that future applications for competitive entry into telecommunications should be dealt with by the Commission in a manner similar to that used for the CNCP application.
- o The Government of Ontario is of the view that it is in the public interest, at this time, to permit competitive entry in telecommunications only after a thorough public review.
- o The Government of Ontario is of the view that payments required from CNCP for connecting facilities is a matter that can be resolved by CNCP and the telephone companies under the supervision of the Commission.



- o The Government of Ontario is of the view that only the development of actual costs based upon a methodology approved by the Commission in its decision in Phase III of the Cost Inquiry will allow a determination of the actual subsidy flows.
- o The Government of Ontario is of the view that it is possible for CNCP to enter this market prior to the completion of Phase III of the Cost Inquiry.
- o The Government of Ontario is of the view that the Commission should set a level of contribution payment, to be made by CNCP, which it considers to be appropriate for the initial year of competition. As cost information and actual results become available the Commission should make any necessary adjustments to the contribution payments.
- o The Government of Ontario is of the view that payment of a flat rate charge per access line is probably the most easily understood and readily implementable of the approaches suggested for determining the actual amount of the contribution payment.
- o It is the view of the Government of Ontario that only actual experience with competition and the resultant lower prices will ultimately determine whether or not the demand for voice long distance telephone services is price elastic.



- o It is the view of the Government of Ontario that the Commission should initially establish the level of contribution payments that CNCP will be required to pay based on its judgement of the level of support required and on its judgement of the likely price elasticity of voice long distance telephone services.
- o It is the view of the Government of Ontario that an Order of the CRTC permitting CNCP access to the public-switched network of Bell Canada should consider the possible effect produced by CNCP terminating traffic on independent telephone companies in Ontario.
- o It is the view of the Government of Ontario that any such Order should consider the possible effects on the revenues of the independent telephone companies in Ontario resulting from any diminution of revenues available for settlement with the independent telephone companies in Ontario.

3. Tariff Restructuring

- o The Government of Ontario remains of the view that rate rebalancing was not an issue that was a necessary part of the recently concluded public hearings.
- o It appears that rebalancing is predicated to a very large degree on the potential for uneconomic bypass of telephone company facilities if rate rebalancing does not take place.



- o It appears there is very little likelihood of large customers actually engaging in bypass and there is no evidence of the circumstances under which they might be likely to attempt to do so and be successful.
- o The record demonstrates that Bell and CNCP have had difficulty in identifying the nature and quantity of bypass that may be occurring today.
- o It appears that, in the past, the carriers have to some extent addressed the problem of bypass with appropriate tariff changes.
- o Neither the revenue loss currently occurring due to bypass nor the potential revenue loss due to bypass has been quantified.
- o It is the view of the Government of Ontario that the determination of the extent to which prices are not properly aligned with costs must await the implementation of a costing system, as approved by the Commission, as a result of Phase III of the Cost Inquiry.
- o Any such adjustments are not a necessary part of the issues related to the introduction of competition in the voice long distance field.
- o It is the view of the Government of Ontario that rate rebalancing should not be approved as a matter of general principle, in the context of the present proceedings, merely because the effects of competition on local rates is at issue.



- o The Government of Ontario is of the view that the necessity and rationale for rate rebalancing has not been clearly established.
- o Any decision of the Commission to approve of the principle of rate rebalancing in this proceeding should take into account the lack of definitive cost information.
- o It is the view of the Government of Ontario that even should the Commission determine that it is appropriate to approve of rate rebalancing as a matter of principle it should not proceed to implement any portion of any rate rebalancing scheme immediately.
- o It is the view of the Government of Ontario that should the Commission approve of the principle of rate rebalancing in the decision resulting from this hearing process, such approval should not include any approval of specific rate increases.
- o It is the view of the Government of Ontario that any specific rate increases should be the subject of notification to affected subscribers and the usual public processes associated with the review of a request for a general increase in rates.
- o It is the view of the Government of Ontario that rate rebalancing would threaten the objectives of affordability and universality of basic telephone service, and that it is, therefore, not in the public interest at this time.



4. Resale and Sharing

- o It is the view of the Government of Ontario that the CNCP definitions of resale and sharing are adequate descriptions of these activities for the purpose of this proceeding.
- o In principle, the Government of Ontario is of the view that the rules and regulations governing resale and sharing should be relaxed.
- o The Government of Ontario, however, is of the view that there is no urgent requirement to approve a general policy of allowing resale and sharing immediately.
- o It is the view of the Government of Ontario that introduction of resale and sharing should be delayed until the Commission can be satisfied that the underlying tariffs are cost justified.
- o The Government of Ontario is of the view that, in the future, should the rules regarding resale and sharing be relaxed then permitting the entry and exit of firms from such a market with relative ease would be in the public interest.









